

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 FEA-02 INT-08 SCI-06 SP-03 AID-20 EB-11

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CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

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R 161727Z MAY 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2589

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: SCHMIDT'S ECONOMIC REPORT TO SPD

1. TODAY'S DIE ZEIT CONTAINS A SUMMARY OF A 56 PAGE REPORT HELMUT SCHMIDT PREPARED FOR THE SPD LEADERSHIP PRIOR TO HIS NOMINATION FOR THE CHANCELLORSHIP. THE REPORT COVERS THE WHOLE SPECTRUM OF ECONOMIC POLICY AND WHILE, OF COURSE, IT CONTAINS THE USUAL HEDGES THE FOLLOWING POLICY LINES NEVERTHELESS EMERGE:

(A) CONTINUED CLOSE COOPERATION WITH THE BUNDESBANK TO COUNTER INFLATIONARY FORCES THROUGH TIGHT MONETARY POLICY, BUT AT THE SAME TIME AN INDICATION THAT THE UPWARD FLOAT OF THE DM COULD REACH LIMITS WHERE IT SERIOUSLY WOULD ENDANGER GERMAN EXPORT INDUSTRIES AND MIGHT CALL FOR INTERVENTION.

(B) SCHMIDT CONTINUES TO SUPPORT THE SMALL SNAKE AND INDICATES THAT THE INTERVENTION NECESSARY TO MAINTAIN IT (AND THUS BRING ADDITIONAL

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LIQUIDITY INTO THE GERMAN ECONOMY) HAS ITS USEFUL

ASPECTS.

(C) AN INDICATION THAT THIS IS NOT THE TIME TO MAKE MASSIVE FINANCIAL AND ECONOMIC SACRIFICES IN ORDER TO FACILITATE FURTHER EUROPEAN INTEGRATION. SUCH SACRIFICES AT THIS TIME WOULD BE COSTLY FOR GERMANY, BRING MORE INFLATION, AND PROBABLY RESULT IN LITTLE ADVANCEMENT OF EUROPEAN INTEGRATION.

(D) PRIORITY IN THE REMAINING REFORM PROJECTS SHOULD BE GIVEN TO THE TAX REFORM. THIS ALSO MEANS THAT IN VIEW OF THE REVENUE LOSSES THE REFORM ENTAILS PUBLIC EXPENDITURES AT ALL LEVELS OF GOVERNMENT MUST BE KEPT UNDER STRICT CONTROL, PARTICULARLY IN 1975.

(E) THE UNCERTAINTY OF BUSINESS CONCERNING CO-DETERMINATION AND WORKERS PARTICIPATION IN INDUSTRY SHOULD BE ENDED AS QUICKLY AS POSSIBLE THROUGH LEGISLATIVE ACTION ON THIS PROPOSALS (COMMENT: SCHMIDT HAS SINCE ANNOUNCED THAT HE DOES NOT EXPECT TO ENACT LEGISLATION FOR WORKERS PARTICIPATION IN INDUSTRY PRIOR TO THE NEXT GENERAL ELECTION).

(F) THE MOST CRITICAL STRUCTURAL PROBLEM LIES IN THE ENERGY SECTOR. WHILE SUBSIDIES SHOULD BE AVOIDED AS MUCH AS POSSIBLE PUBLIC INTERVENTION WILL BECOME INCREASINGLY NECESSARY (FOR EXAMPLE, THE CREATION OF A NATIONAL OIL CONCERN).

(G) SCHMIDT REJECTS PRICE AND LOAN CONTROLS AS WELL AS VARIOUS PROPOSALS FOR INDEXATION. HE ALSO REJECTS PUBLIC OWNERSHIP OF ALL BANKS AS WELL AS THE CENTRAL PUBLIC GUIDANCE OF ALL INVESTMENT DECISIONS. HILLENBRAND

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